



THE STATE OF IOWA

*Alcoholic Beverages
Corrections
Human Services*

*Natural Resources
Revenue and Finance
Veteran's Home*

LEARNING ON THE GO

REFLECTIONS ON THE FIRST YEAR OF
IOWA'S CHARTER AGENCY EXPERIMENT



CHARTER AGENCIES

Learning on the Go

Interviews with the people involved with Charter Agencies and review of documents reveal both strengths and opportunities to improve. They are present in all phases of development — from legislative authorization, to recruitment and execution — from the original proposal to the present.

Legislative Authorization

Reinvention? Or Just Another Budget Cut?

PSG first proposed Iowa Charter Agencies in March 2003, while the legislature was formulating the FY 2004 budget and looking for roughly \$100 million in reductions. The basic idea of Charter Agencies — management freedom in exchange for accountability for results¹ — is basic reinvention and has little to do with budget cuts. As one state official said:



“The Charter Agency Project has a direct impact on the way state government does its business. I think that is why it has attracted national and regional attention. The Charter Agency idea goes to the heart of reinvention; it has very wide applicability for other areas.”

But budget cuts took the spotlight because the original proposal estimated net savings in FY04 of 5% of the Charter Agencies’ budgets, as follows:

FY04 Smarter Spending: *Operational freedom and focus on results typically yields an accountability dividend of 10% to 30%, depending on just how bureaucratic the old system is. We are being conservative and offering Charter Agency Status to up to five agencies who volunteer to trade greater flexibility for a 10% reduction in their general fund operating expenses. A 10% dividend in 5 average-sized*

¹ According to one reinvention proponent, “The deal was well conceived. The package was rich and substantive.”

state agencies would save upwards to \$15 million in FY04 and every year thereafter.

FY04 Investment: *Transformation Loans of up to 5% of the agency's operating budget (a total loan fund of \$7.5 million) [later revised to \$5 million in grants² rather than loans] would be provided to ease the transition.*

Introducing the concept of “freedom in exchange for accountability” in the context of budget cutting made the wrong thing seem most important. What we were primarily looking for was “*an agency whose leader volunteers to be held publicly accountable for producing extraordinary outcomes that Iowans care about and who, in turn, has extraordinary authority to achieve those outcomes....*” But people quickly focused on saving \$15 million. Cash, rather than the willingness to be held *accountable*, became the price of admission. Several people we interviewed raised this issue:

“The temptation is to see success strictly in terms of savings. The drive to improve results, services and efficiencies seems to have gotten lost on the part of some. There is a danger that savings have become the mantra for gauging success.”

“We need to educate the public much better about the nature and contributions of the charter agencies. A much larger understanding is still to be desired. There is still widespread thinking that reinvention is about cuts.”

Lottery's Results are Revenues. A Successful Spin-off

One of the prime candidates for more management freedom in exchange for accountability for better outcomes was the Iowa Lottery. In this case the better outcome *was* all about money — more revenue for Iowa. But it made no sense for them to volunteer a budget cut. A different arrangement had to be worked out in separate legislation giving the lottery more autonomy. As a result, the lottery expects to take in an additional \$8 million this year, more than the entire net savings envisioned for Charter Agencies.

² One official commented, “The Grant Fund didn’t do well. We need to do a better job of prodding change.” Another noted, “There is money still left in the Grant Fund. It is just sitting there. We should make sure we invest it in order to produce more revenue.”

That also led to the realization that *increased revenues* were just as good as *reduced expenditures* for balancing the budget, so the Charter Agency legislation was amended to allow either.

Broad Brush of Authority

The legislation designed to give Charter Agency directors “*extraordinary authority to achieve outcomes*” was broad and powerful. Rather than attempt to specify every troublesome rule and regulation that a Charter Agency director could waive – a task that would have required prohibitively long research and negotiation – the draft legislation granted Charter Agency directors equal authority to that of the directors of personnel, general services, and information technology, the bureaucracies that typically frustrate operation managers. The only specific regulation the legislation dealt with was employment caps;³ it prohibited them.

At the same time the legislature was working on the Charter Agency authorities to escape central bureaucracy, they were consolidating personnel, procurement, IT, and other back office functions in a huge, new Department of Administrative Services. Several people involved in the Charter Agency initiative commented that:

“We should have brought DAS into the picture earlier.”

“We should have worked earlier, better, and more intensely with DAS. We should have initiated their leadership better.”

Clearly, having DAS as an early supporter of the Charter Agency concept, there would have been helpful. But keep in mind that DAS was facing a shift from monopoly control to entrepreneurship and risk that old customers might flee. The broad freedoms proposed for Charter Agencies presented DAS with an even greater challenge.

In some ways, that broad-brush approach was not quite broad enough. We found that Charter Agencies also wanted freedom from certain rules imposed by the Director of Management⁴ and the Director of Revenue and

³ In one Charter Agency official’s opinion, “Best of all was breaking the cap on employment. This helped us hire scientists on contract as full time employees, saving money and expertise. Gave a tremendous morale boost.”

⁴ One agency official said, “We ought to consciously align the various [DOM] improvement initiatives, such as Accountable Government, the Baldrige Awards, Iowa Excellence, and Charter Agencies.”

Finance. Those had to be negotiated later. With a little research and more interaction with the DOM and agency staff⁵ the additional flexibilities could have been included in the original legislation.

The broad brush also slopped outside the lines and led to some confusion. PSG's sample legislation proposed letting Charter Agency directors waive even *laws*.

“If necessary for the efficient and effective operation of his or her Charter Agency, and only for purposes within the scope of such agency, the Director may waive provisions of the Iowa Code – but not until notifying the Legislative Council of the provision to be waived, along with the expected benefits and potential deleterious effects, and waiting 30 days.”

The statutory drafters for the legislature did their best to make such unprecedented authority constitutional by adding three pages of restrictions and review procedures requiring all waivers of “statute or administrative rule” to pass through screening by the Department of Management and the administrative rules review committee. The bill got all the way to the Senate floor with statutory waiver authority included. Then Senate Amendment 3312 struck the word “statutory” but left all three pages of restrictions and review requirements on the waiver of administrative rules.

The result was a confusing authorization bill that, in its early paragraphs, gave Charter Agency directors clear, unfettered authority to waive any administrative rule regarding personnel, procurement, general services, and information technology, but then laid out lengthy restrictions and approvals required to “*temporarily waive or suspend the provisions of any [here’s where the words ‘statute or’ were removed] administrative rule.*” It took the governor’s own lawyer to sort it all out and explain which rules could be simply waived and which had to go through the approval mill. Far better had we not overreached in the first place by proposing freedom from laws.

The Second Legislative Proposal

This past legislative session, several Charter Agencies proposed new authorities unique to their own operation. For example, the Department of

⁵ An earlier “learning on the go” report highlighted PSG’s failure to collaborate sufficiently with the DOM and agency staff on the reinvention bill in general.

Natural Resources sought authorization to operate Nature Stores, with a separate fund for Nature Store revenues. Another example was ABD's provisions for distributing "native wines" and making deliveries to retailers on Sundays. None of the agency-unique proposals succeeded. Here are the lessons some mentioned:

“Legislation should deal only with those items that benefit all charter agencies and only with those items that deal with their charter. If legislation does deal with a single agency, it should pertain only to its results as a charter agency.”

“We need to get legislators on board early and as champions.”

The legislature did approve one additional authority for all Charter Agencies in the '04 session. They eliminated the need for Executive Council approval of out-of-state travel, professional memberships, asset sales, and leases.

“Not having to go to Executive Council for [out of state] travel has saved my secretary lots of time that had been taken up in providing documentation for the E.C.”

Recruitment

An Unconvincing Opportunity

While the legislation was taking shape, PSG and DOM were out recruiting volunteers.

After several years of budget cuts, most agencies were trying to calculate what, if anything, they might be able to save

compared to an up-front budget cut if they volunteered. Few thought they could save enough to make it worthwhile. Even after the legislature agreed to count increased revenues toward the goal, and removed the limit on the number of Charter Agencies — allowing the dollar goal to be spread more thinly — no agency head volunteered. They were not convinced that the advertised administrative freedom (a) would really be delivered or (b) that it would be worth risking *any* further budget cut.

“The agencies were well chosen. Good that they were volunteers.”

The skepticism over real freedom was understandable. Notwithstanding the broad legislative authority to waive personnel, procurement, and information

technology regulations, the PSG/DOM/DAS team⁶ was busy formulating a list of specific things Charter Agencies would be allowed to do. The list of 40 authorities was published on June 16, 2003. While it contained freedoms not specified in the law — such as the ability to “*opt out of the Iowa Excellence Program*” — it listed only:

- 11 mostly-hedged personnel authorities (i.e. “*May convert PEO positions to state FTEs, consistent with collective bargaining agreements and Human Resource Enterprise rules,*”)
- 6 similarly hedged procurement authorities (i.e. “*May, with appropriate audit-worthy documentation, use sole source contracts,*”) and
- one that amounted to an IT restriction (“*Charter agencies purchasing Information Technology Enterprise services independently must document that the purchase complies with ITE enterprise technical standards.*”)

The list might have been intended to illustrate the kind of authority a Charter would have. But it was natural for agencies to assume that was *all* the freedom they might get. As one person put it:

“In considering whether to apply for charter status, I studied the list of benefits. I discovered we already had authority for 16 of them; another 16 were not commensurate with the cost. I found 7 that would be of value.... [The Director] didn’t think it was worth a 10% cut.”

Of course, there were real world limits on Charter Agency freedom. As those became clear, some even thought it was a bait-and-switch:

“At the start this was done ass-backwards. We were given the impression we could do anything, then ran into collective bargaining agreements and things in the code. We should have been given the parameters right from the start.”

At any rate, no one stepped forward as an enthusiastic volunteer. The simple solution would have been for the governor to *force* half a dozen agencies to

⁶ As one member of PSG pointed out, “*It was important to have partners from the State working with us, especially those who believe in charter agencies and are committed to provide resources, people like Jim Chrisinger.*”

be charters. But one criterion PSG and DOM had agreed on from the outset was that:

“Agencies voluntarily, without coercion, enter into the status of charter agency.”

Rather than abandon that criterion or the entire initiative, the governor sent a message to eleven agency heads:

“The legislature has given us an opportunity too good to pass up, a chance for each of you to have all the management flexibility you’ll need to deliver the results you’ve promised. Charter Agency authority can be a government manager’s dream come true, a license to slash much of the usual bureaucratic red tape and actually manage.

“If we seize this opportunity, I think we significantly improve our chances of fulfilling all our goals for Iowa. So, out of all the departments who have expressed interest in the past, I am tentatively designating your organizations as Charter Agencies. You’ll have the opportunity to opt out before I make my final designations by July 1st, but I’d like you to give serious consideration to staying in.”

That led the final line up of six Charter Agencies. As one wag said:

“The agencies were well chosen. Good that they were volunteers.”

Even if not true volunteers, the Charter Agency directors have warmed to the task. As one observer noted:

“All of the directors are very positive about having taken the risk to become charter agencies. For most it exceeded their expectations.”

Another said:

“There is a lot of good will, patience, and tolerance on the part of the directors, and a willingness to think of fresh opportunities. It has been fun to watch them open up to new forms of experimentation and I'd like to see them take even bolder steps in innovation.”

Execution

Pivotal Moment

Soon after their inauspicious start⁷, Charter Agencies got a real shot in the arm. The revenue estimators revised their forecast downward, which would normally precipitate a current year cut for all agencies. But Charter Agencies had been promised an exemption from such across-the-board cuts, and the governor made good on the promise. Many we interviewed pointed to that as a turning point.

“At the start we were clueless but we are beginning to get a handle.”

“The governor’s support in exempting the CA’s from across-the-board cuts was decisive.”

“A pivotal moment was when the governor supported the exemption from across-the-board cuts. This gave unquestionable credibility to the deal.”

Of course, the non-charter agencies had to absorb the Charters’ share.

“The exemption from across-the-board cuts was an unexpected big boost for the charter agencies but was a two-edge sword in that it caused resentment in other agencies.”

That resentment manifested itself in an attempt — happily unsuccessful — to reverse the Charter Agency authority in the ‘04 legislative session.

Bold Commitments to Extraordinary Outcomes.

The early and unrelenting focus on the \$15 million needed for budget balancing took much-needed attention away from one of the central reinvention purposes behind Charter Agencies. That was to make

⁷ One manager wisely reflected, “We managed to avoid any major mistakes. We should be mindful, however, that screw-ups are inevitable and will happen at some point.”

government, starting with the agency director, more accountable for results. Conventional government is focused more on input (money and employment levels) and tends to hold agency heads accountable mostly for fraud, waste, and abuse.

Iowa had already gone a long way toward focusing management attention on results. For example, each agency has a strategic plan and a performance plan that specifies numerous goals and, in many cases, measures of progress toward those goals. But many of the goals are characteristic of “inside baseball,” not the sort of thing Iowans would understand or care about. For example, several agencies list the goal of “*increasing the percentage of non-general funds supporting the department’s operating budget.*” Certainly worth doing, but not an accomplishment that will restore public faith in government.

The *transformation* that Charter Agency status was designed to precipitate is the willingness to be held accountable for “*extraordinary outcomes that Iowans care about.*” In many cases, that means taking accountability for things beyond an agency’s direct control and outside its traditional bailiwick. For example, DHS or DPH might accept accountability for reducing diabetes, hypertension, and cardiovascular disease among Iowans by 10% next year. By contrast, one of the goals in the DHS charter is:

“Implement disease management in Iowa Medicaid initially focused on diabetes, hypertension, and cardiovascular disease to reduce Medicaid costs by \$500,000 and to preserve health status.”

The difference is clear. To succeed, DHS only needs to “implement disease management,” not reduce disease.

Transformation to a higher level of accountability might have taken place if some of the energy spent on identifying the \$15 million had been spent on identifying “*extraordinary outcomes that Iowans care about.*” Now that the first year’s savings goals are largely accomplished, it is time to refocus Charter Agencies on bold commitments to extraordinary outcomes.

“We need to discuss how to set up projects in such a way that they are tied better to results. This is not easy to do in actual practice. It is tricky, and we will have to pay far more attention to this in the future.”

To help accomplish that, one Charter Agency official believes:

“We should all revise and update our charters and make sure they align with the directors’ performance agreements.”

But another points out that even if the charters and performance agreements are aligned, the key is still top management attention.

“There was not much attention paid to the performance agreements after they were signed. That opportunity to hold directors accountable was lost.”

Following through with performance agreements is a key element in producing extraordinary outcomes and deserves more attention in the future.

Even so, most Charter Agency directors say that results have been good so far. One summed it up this way:

“Together, I believe we’ve been able to accomplish some incredible things in such a short time. For instance, [my agency has] been able, so far, to transfer an additional \$6 million to the general fund (and I have high hopes of directing an additional \$2 million yet this fiscal year). At the same time, we’ve been able to work on the other side of our ledger and significantly reduce our operating expenses.

Of course, there is extra work involved with being a Charter Agency.

“Having the same authority as DAS simply meant that we have to go through the same bureaucratic red tape [around purchasing and hiring] that DAS does.”

But there are extra benefits, too.

“The opportunity to sit together with directors of sister charter agencies is of great value ... an excellent communication device, a great tool.”⁸

⁸ One official commented, “If the [Charter Agency] directors were to collaborate together they could gain even greater power.”

“The most satisfying aspect of the project has been the excitement that the project brought to the ... staff. Their renewed energy and sense of institutional value were clearly an unexpected side benefit⁹ from the charter agency initiative.”

And the benefits extended beyond the Charter Agencies themselves. According to a DAS official:

“The CA project provided innovation, creativity, and reflection. It caused us to be more flexible in finding ways to accommodate our customers and find ways and opportunities to partner with the Charter Agencies. The Governor wanted to foster innovation and he succeeded in that with the Charter Agencies.”

Energy and Excitement. Nurturance and Support

Energy and excitement in the staff is surely a key to future success. According to many, we will need to do a much better job of educating and involving the Charter Agency staffs.

“What couldn’t get done because of lack of time and resources was drilling down into the agencies, for example, the laundry and housekeeping levels. People need to understand what it means to be a charter agency, especially those in the field offices.”

“We need to better initiate the players. This was too much like trying to change a tire while riding on the bike.”

“We did not engage the Union as much as we should have, but, given the constraints we are under, we did the best we could. John Craig was a gift from Revenue and we did manage to avoid trouble with the Union.... more people like him should be involved.”

“The goals of the charter agencies are not known by most people on the front lines. It would be very useful to engage front line workers in a review of what charter agencies are, what they have accomplished (especially in their respective agencies), and what the goals are in the

⁹ Some take a more cautious approach to crediting Charter Agency status: “We need to be able to demonstrate a cause-effect relationship between the charter agency status and the results achieved. Some benefits we already had. In all of the materials we should include only those that come from our CA status.”

future, so that they are not only aware of such but can actively contribute to their realization.”

“Even now we don’t know all the freedoms that are out there¹⁰. There is still a lot of fog in the minds of many people. We need nurturance and support!!”

The need for continued nurture and support is a theme repeated by many:

“The big challenge now is continuity. We have lots of places for growth but are concerned. Someone is needed to fill Mary’s [Lofy] role of keeping this in the forefront. We are only 10% into this and going up a steep incline. We can’t do this alone.”

“Mary’s support and steady hand have made a huge difference. Without her the project may not have made it through to this stage.”

“People were leery at first but Mary especially paid attention to their individual needs and responded to them.”

“A major issue as we look ahead is maintaining momentum. Mary has been a strong, effective leader. I have way too much to do to even attempt to fill her shoes”.

“PSG leadership has helped and we are in great need of it continuing.”

“The new Purchasing Results Budget Process should improve our status even more. We will need orientation and coaching for this to succeed. We will need to initiate people carefully into this, including the connections to Charter Agency status.”

“We are moving ahead. We want to continue PSG involvement. The charter status fits perfectly the leadership and management style of our director. It has gotten managers thinking about what other opportunities are out there. When they are running into

¹⁰ According to one official, “The process of clarifying waivers, benefits and flexibilities will no doubt continue without end.”

administrative barriers they are challenging them more. This is bringing out the best in our managers. We are now going all out.”

While it is gratifying to hear calls for continued PSG¹¹ support, there is a clear need for a full-time, dedicated manager to bring the Charter Agency experiment out of its infancy and into full flower. As one state official put it:

“We need a strong, proactive leader and champion from within the State, similar to what Wendy Rickman has provided the Child Welfare Project.”

Another official argues persuasively that we should extend the benefits to more agencies:

“There is something of an imbalance between the Charter Agencies and the other agencies, between the “haves” and the “have-nots.”. For example, sometimes other agencies contributed to the success of Charter Agency projects but did not receive public recognition for their contributions. Other agencies produced savings but were not acknowledged in the same way the Charter Agencies have been. The Charter Agencies were exempt from the across-the-board cuts, which the others had to absorb. The “have-not” agencies couldn’t afford the price tag of admission to Charter status. The directors of the Charter Agencies are eligible for bonuses to which other directors are not. All of this points to the fact that we should find ways to broaden the base of Charter Agencies in order to get more agencies involved.”

Several also suggested that we consolidate all the energy surrounding Charter Agencies:

¹¹ PSG is in fact somewhat critical of the support it was able to provide:

“We ran too thin and too short on resources, including professional personnel, staff, printers, etc. We were too little organized and could have used as backup someone with strong organizational skills, such as Heidi Patterson or Michelle Oberholz.”

“It was a mistake to have had Mary and Armi as Reinvention Advisors to agencies. They were both too taken up with other responsibilities. Each might have handled one agency, but not more than that. Having advisors for each agency was, and still is, a good idea.”

“There were too many varied meetings: the steering committee, the liaisons, the directors, and legislators. They sometimes received different messages. Think about holding quarterly meetings with all of them together, not only to make sure they are all on the same page and hearing the same stories, but also to deepen their shared understanding of the philosophy and nature of these charter agencies.”

“We should have an annual meeting, starting now, with all those involved to celebrate results, share lessons learned, clarify focus for the future, and chart the course for the next four years. Hopefully the governor would attend such a session.”

There may be a fine opportunity for the governor and everyone else involved in Charter Agencies to get together and celebrate. The Charter Agency program has been selected as one of ten finalists in the Council of State Government's Innovation Award Program.